



CITY OF SALISBURY, MARYLAND

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2013

CITY OF SALISBURY
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INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810
T 302.478.8940
F 302.468.4001
www.btcpa.com

February 17, 2014

Members of City Council
City of Salisbury
Salisbury, Maryland

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Salisbury, Salisbury, Maryland as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Salisbury (the "City"), and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Salisbury's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations as item #13-1 to be a material weakness.

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City of Salisbury

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and recommendations as item #08-4 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salisbury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The City of Salisbury's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The City of Salisbury's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

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INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

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3411 Silverside Road
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February 17, 2014

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Report on Compliance for Each Major Federal Program

We have audited the City of Salisbury's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Salisbury's major federal programs for the year ended June 30, 2013. The City of Salisbury's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Salisbury's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Salisbury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the City's major federal programs. However, our audit does not provide a legal determination of the City of Salisbury's compliance.

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Opinion on Each Major Federal Program

In our opinion, the City of Salisbury, Maryland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Salisbury's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Salisbury's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Salisbury, Salisbury, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Salisbury's basic financial statements. We issued

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our report thereon dated December 2, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the members of City Council, management and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Grantor/Program	Source Code	Federal CFDA Number	Grant/Loan Number	Expenditures
U.S. Department of Justice				
Passed through Maryland Bureau of Justice Assistance				
ARRA-COPS Hiring Recovery Program				
Capital City Regional Task Force	I	16.710	2009RKWX0410	124,064
Capital City Regional Task Force	I	16.111	JLEO-13-0347	4,981
Total CFDA #16.111	I	16.111	JLEO-14-0347	11,425
				<u>16,406</u>
Justice Assistance Grant	I	16.738	BJAG 2009-DJ-DX-1432	8,063
Justice Assistance Grant	I	16.738	BJAG-2009-SB-B9-3327	20,954
Edward Bryne Memorial Justice Assistant Grant	I	16.738	2010-DJ-BX-0709	30,106
Edward Bryne Memorial Justice Assistant Grant	I	16.738	2011-DJ-BX-3198	723
Justice Assistance Grant - ATF OCIDEF	I	16.738	DEA-GC-12-0158	5,573
Total CFDA #16.738				<u>65,419</u>
Total U.S. Department of Justice				
				<u>205,889</u>
U.S. Department of Homeland Security				
Salisbury Fire Department Fire Resure Rapid Response Vessel	D	97.116	2009-PU-RI-0375	50,253
Assistance to Firefighters Grant	D	97.044	EMW-2011-FH-00621	377,996
DHS/FEMA 2011 Port Security Grant - Foam Trailer	D	97.056	EMW-2011-PU-K00002-S01	131,763
Total U.S. Department of Homeland Security				
				<u>560,012</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				
				<u>\$ 4,134,584</u>

Source Code:

D = Direct Federal Funding

I = Indirect Federal Funding

CITY OF SALISBURY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SINGLE AUDIT REPORTING ENTITY

The City of Salisbury's single audit reporting entity is consistent with the reporting entity used for the City of Salisbury's financial statements.

NOTE B BASIS OF ACCOUNTING

All expenditures included in the schedule of expenditures of federal awards are presented on the basis that expenditures are reported to the respective federal grantor agencies. Accordingly, certain expenditures are recorded when paid, and certain other expenditures are recorded when the federal obligation is determined.

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [unmodified, qualified, adverse or disclaimer]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs [unmodified, qualified, adverse or disclaimer]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>14.218</u>	<u>CDBG/Entitlement Grants Cluster</u>
<u>66.468</u>	<u>Capitalization Grants for Drinking Water State Revolving Funds</u>
<u>97.044</u>	<u>Assistance to Firefighters Grant</u>

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

Yes X No

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

FUND DEFICIT

08-4 Finding

As of June 30, 2008, the City's Grant Fund, Community Development Fund and Septage Treatment Fund had a deficit fund balance. The deficit was attributed to the use of monies from the City's pooled bank accounts that were not allocated to the appropriate fund. The City is responsible for demonstrating fiscal responsibility for all funds and fund types.

We recommended that the City implement procedures to ensure that, on a regular basis, someone is reviewing the activity in all City funds to ensure that they are being properly administered and funded. In addition, the City needed to implement a plan to fund the existing deficit and prevent future deficits from occurring.

Status

Subsequent to our original finding, we noted that the City's Mitchell Landing Fund has incurred a fund deficit. In the fiscal year ended June 30, 2012, the City closed out the Septage Treatment Fund, thereby eliminating its fund deficit. In the current year, the City corrected an error in relation to its grant accounting for receivables, thereby eliminating the fund deficit in Grant Fund and the Community Development Fund. Thus, this recommendation is still applicable for the current year.

Corrective Action Plan

The City will continue to explore avenues to resolve fund deficits.

12-1 Collateralization of Cash

Finding

As part of our confirmation process for auditing cash and collateralization of cash, it was reported to us that at June 30, 2012, the City had funds which were not collateralized in the amount of \$302,528. Upon further inquiry with the client and the third party custodian, there appeared to be a breakdown in communication of the collateral and there was no internal formal procedure to ensure that any reporting from custodians of collateral be reviewed and reported to appropriate banking officials.

Recommendation

We recommended that the City document a procedure for obtaining, reviewing and appropriating follow up for any funds on deposit which require collateralization. This procedure should incorporate monthly review of collateral in the City's name, at a minimum, to ensure that public funds on deposit are protected from loss at all times.

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Status

During our current year audit, we noted that the City's deposits which were not insured by the Federal Deposit Insurance Corporation were appropriately collateralized as of June 30, 2013. Therefore, this recommendation is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

13-1 GRANT MANAGEMENT

Condition

During our current year audit, we noted that the City does not have an individual assigned to manage the City's grant programs. Many of the responsibilities are decentralized and in the hands of staff at the department level.

Criteria

Effective grant management is a process of adequate oversight and monitoring of federal and state awards that includes project resources, activities and results.

Effect

For reimbursement grants, the City is fronting the cost and the grantor funds the expenditures upon the City submitting the proper reports.

Cause

Grant administration tasks need to be clearly assigned. Additional checks and balances are required to ensure assigned tasks are completed timely.

Recommendation

We recommend the City designate individuals responsible for the following grant administration tasks:

- Review of the grant budget and related expenditures;
- Reconcile grant expenditures and receipts to the schedule of expenditures of federal awards;
- Provide updates to the finance department including the project status, reimbursements requested and open items; and
- Timely preparation and submission of required reports and reimbursement requests.

Corrective Action Plan

The City plans to review grant administration tasks, document assignments, and add checks and balances to ensure accurate and timely reimbursement submissions and grant reporting.

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

11-1 FORM SF-425 REPORTING

Condition

During our prior year audit of the CDBG Entitlement Grant Cluster, we noted that Form SF-425 is applicable for the City but was not filed as required.

Criteria

According to OMB Circular A-133 Part III, Form SF-425 is required to be filed quarterly.

Effect

By not filing the proper forms, there is no way of ensuring that federal funds are not drawn prematurely; that no funds are being kept on hand in excess of three days' needs and that the City is taking steps to reduce excess cash balances.

Cause

The City was unaware of its requirement to file Form SF-425.

Recommendation

We recommended that the City review the OMB Circular A-133 for CFDA #14.218 yearly and understand all of its reporting requirements.

Status

During our current year audit, we noted that the City filed Form SF-425 for each of the four quarters during the fiscal year ended June 30, 2013. Standard Form 272 was also filed for each of the four quarters. Therefore, this finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.